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STATE FOR WHA/BSC AND EB/IFD/OIA  
STATE PASS TO USAID FOR LAC/AA  
STATE PASS TO USTR FOR SCRININ AND LYANG  
NSC FOR KIM BREIER  
TREASURY FOR OSIA MAUREEN WAFER  
TREASURY FOR OTA WARFIELD, VAN KOCH, MILLAR  
COMMERCE FOR ITA SARAH COOK  
SOUTHCOM FOR POLAD DAN JOHNSON

E.O. 12958: N/A

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SUBJECT: PARAGUAY POLITICAL AND ECONOMIC UPDATE, MAY  
28-JUNE 3

1. (U) Summary

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-- Security developments  
-- Congress calls for parity in Mercosur Parliament  
-- New cabinet shuffles

Security developments

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12. The press reported widely on Vice President Luis Castiglioni's visit to Washington, focusing on efforts to expand security cooperation between the two countries. The press flagged U.S support for creation of a Trade Transparency Module in the Customs Department; U.S.-Paraguay joint military exercises; and a workshop sponsored by the Center for Hemispheric Defense Studies (CHDS) as deliverables flowing from the visit. The coverage has been generally factual and positive. We will be meeting with the Vice President upon his return to discuss next steps, particularly with regard to preparing for DS/ATA and CHDS assessments and getting the Congress to move on money laundering legislation.

13. Ministers of Interior of the Mercosur member countries, Argentina, Brazil, Uruguay, and Paraguay, and the associate members, Chile, Peru, Ecuador, and Colombia convened on June 3 to address issues of international security and methods to improve communication among countries in the region. The Ministers signed two cooperation agreements to prevent and control kidnapping and to fight the trafficking of minors.

14. In a meeting with the Ambassador on June 1, Canadian Ambassador Yves Gagnon announced that his government is preparing a new budget, the Global Peace and Security Fund, with USD 100 million for security and anti-transnational crime assistance programs worldwide. Ambassador Gagnon conveyed his government's desire to assist Paraguay in areas that the U.S. government is currently providing support, i.e. money laundering, counterterrorism, intellectual property rights, trafficking in persons, counterdrug, and arms smuggling. We will be coordinating with the Canadian embassy in Buenos Aires on this.

Congress calls for parity in Mercosur Parliament

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15. On June 1, Paraguay's Chamber of Deputies approved a declaration supporting parity for the Mercosur countries to comprise the future Mercosur Parliament; in accordance with the pronouncement made by Paraguay's Senate on May 31, the Chamber of Deputies called for each country in Mercosur to be afforded the same number of representatives. Paraguay's proposal does not square with the initial consensus reached by the Mercosur countries at a technical level for the creation of a parliament which would allow for 36 legislators for Brazil, 31 for Argentina, and 16 each for Paraguay and Uruguay. During the Mercosur Joint Parliamentary Commission meeting on June 3, the Brazilian negotiators rejected the Paraguayan proposal. The protocol's final approval could be delayed as without a preliminary accord the Mercosur presidents will have no agreement to validate during the upcoming Mercosur summit later this month.

New cabinet shuffles

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16. Dr. Jose Maria Ibanez, private secretary to President Duarte, was named political and international affairs advisor to Duarte, a move that positions him to succeed Leila Rachid as Foreign Minister. The press has reported Rachid will be named Paraguay's Ambassador to the United Nations, replacing Eladio Loizaga. Julio Peralta, the MFA's Director of International Organizations, confirmed this decision was under consideration but had not been taken yet. Carlos Maria Santacruz, a Congressman in the Lower House of Paraguay's Congress, has been named the new presidential private secretary.

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17. (U) Meanwhile, Ibanez' father, Minister of Agriculture Dr. Antonio Ibanez, under investigation for accusations reported in the press that he owned and benefited from a meat supply business that acted as an illegal purveyor to the Paraguayan National Police, resigned from the cabinet on June 15. Ibanez maintained that he resigned to demonstrate his "innocence" and to pave the way for his son's appointment as Foreign Minister. Local media report that prosecutors raided a house from where the meat supply business operated, seizing documents that link former Minister Ibanez to the business. No charges have as yet been filed.

18. (U) Comment: Pundits speculate that the sudden media frenzy over Ibanez senior's beef scandal, which has been on the back burner for 18 months, is prompted by efforts to torpedo his son's prospects to become foreign minister. The junior Ibanez is not well-liked in some circles, particularly of the Colorado Party, because he has been a tough gate-keeper for President Duarte Frutos. End Comment.  
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